

Employer UPDATE

A PUBLICATION OF THE ARIZONA STATE RETIREMENT SYSTEM

April 2002

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Helpful Arizona Web Sites

Arizona State Retirement System

www.asrs.state.az.us

Arizona Legislature

www.azleg.state.az.us

Social Security On-Line

www.ssa.gov

Internal Revenue Service

www.irs.gov

State of Arizona

www.az.gov

Medicare

www.Medicare.gov

Update on Implementation of the ASRS Defined Contribution Plan

The Arizona State Retirement System (ASRS) has made considerable progress on the road to implement our new defined contribution program, a 401(a) plan. This article provides you with an update on where we are and where we are going.

Overall Goals of the Plan

The Plan will:

Offer members an added opportunity to save and build financial security with:

Maximum flexibility and portability

Enhanced member education

Help to make the State an employer of choice

Provide low investment fees

Plan Design

The ASRS has recently finalized the plan design document. Key plan design features are:

Employees can contribute up to 40% of pay

Employer match is optional (match can be made to 457, 403(b) or to this plan)

Vesting is 20% a year on employer contributions

Employees make an annual decision on amount to contribute

Participants direct their own investments from a menu of choices

Each employer can decide whether or not to offer plan loans

Rollovers are allowed from a wide variety of qualified plans

In-service withdrawals may be allowed from after-tax, rollover and vested matching contributions

Hardship withdrawals are not allowed

Modified Deferred Retirement Option Plan (DROP)

In conjunction with the DC plan, the ASRS is also adding a provision that enables employees who have reached normal retirement age the opportunity to work up to an additional 36 months with the option to purchase up to an additional 36 months of service. This employer-driven program is called the Modified Deferred Retirement Option Plan, or Modified DROP. By utilizing the Modified DROP, employers can retain well-trained and experienced employees and avoid losing their expertise due to retirement.

IRS Approvals

We have submitted requests for a private letter ruling and a determination letter to the IRS, both of which are required before the plan can begin to accept pre-tax contributions. We expect a decision from the IRS in the second quarter of 2002.

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LINK TO THE INFORMATION

www.asrs.state.az.us

The ASRS recognizes that in today's world, the internet is a resource that many people use for day-to-day activities. Whether you are sending photos of the family to relatives halfway across the country, securing a bank loan and ordering the perfect car to be delivered to your doorstep all in the same day or monitoring the day's news while you work, it only takes the stroke of a key or the click of a mouse to get most anything done on the Internet. The ASRS wants to make those same conveniences available to you on our Web site in order to help you get your job done in the most efficient way possible. The boxes below are to be utilized as a tool to help you navigate through the ASRS Web site. The information that we have provided is *just a small portion* of what we have available on the site. If you have any questions or suggestions with regard to our site, please contact Stephanie Marries, Public Information Officer, by e-mail at stephm@asrs.state.az.us or by calling (602) 240-2048 in metro Phoenix, (520) 239-3109 in metro Tucson or 1 (800) 621-3778 extension 2048 outside of metro Phoenix and Tucson.

ASRS Publications and Forms

We currently have 4 forms available to download and print. They are the **Beneficiary Designation, Change Name/Address, Direct Deposit and Income Tax Withholding** forms. We are currently working to provide you with forms where you can simply type in the information online and hit send. We will notify everyone once this enhancement has been completed. In the meantime you can find our forms in the *Electronic Library* (http://www.asrs.state.az.us/Electronic_Library/Archives/Forms). We also receive requests for the *ASRS Member Handbook* and the *Member Guide*. Due to many changes as a result of past legislation, we are re-writing all of our publications and ask that in the meantime all employers access our online publications that can be found in the *Electronic Library* at (www.asrs.state.az.us/Electronic_Library/Archives/Handbooks). Once we have completed publishing, shipments will be sent out to all ASRS employers.

Return to Work after Retirement

As an ASRS employer, you know what a hot topic post-retirement work can be. To answer the many questions that we receive from our employers and members combined, we have provided a PDF document on the Web site that can easily be printed off and handed out to your employees. The **Return to Work After Retirement** brochure can be found in our *Electronic Library* (www.asrs.state.az.us/Electronic_Library/Archives/Handbooks/ASRS_Return_to_Work_After_Retirement_Brochure.PDF).

Service Purchase

When it comes to the subject of purchasing service, one of the phrases we hear most often from our members is "I wish I would have known about that sooner!" When a member purchases Other Public or Military service, the "cost" is determined by their salary. By purchasing service in the early part of their career, it costs less for them to participate and ultimately gives them a better retirement benefit.

We have provided some "Service Purchase Estimators" (www.asrs.state.az.us/Service_Purchase_Estimators/) on our Web site that enable people to enter in different salaries in order to see what it would cost to purchase service. This would be an excellent resource to tell your employees about during orientation so please feel free to check it out!

Implementation of the Defined Contribution Plan Continued from Page One...

Advantages to Employers

We are offering this plan to help you become a more attractive employer and to compete better with the private sector for talent. Plus, by pooling our resources statewide, we can offer a plan with better technology and better service to participants. Here is an overview of the advantages of offering this plan to your employees:

Reduced Administrative Cost and Hassle
High-Quality Communications
Access to Better Technology
Simplicity: It's All Done for You

Next Steps

We will be providing additional information as we progress. In the meantime, please feel free to contact the ASRS Employer Liaison, Ryan Edmonson at 602-240-2022 in metro Phoenix, 520-239-3100 extension 2022, or 1-800-621-3778 extension 2022 outside metro Phoenix and Tucson. Or you can send correspondence via e-mail with your questions or comments at LGilbertson@asrs.state.az.us.

Employer UPDATE

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Payroll Deduction Agreement Reminders

When an employee changes employers while purchasing service via a Payroll Deduction Agreement (PDA), the PDA terminates unless the employee acts to continue it:

✓ If the employee wants to continue the PDA with the same terms (amount withheld and length of contract), they must notify the Arizona State Retirement System (ASRS) within **10 days** of changing employment. The ASRS will re-issue the PDA with the new employer's name. Once signed, it can be implemented. Do **not** try to implement a PDA for an employee from a previous employer. This is a salary reduction agreement and must be between the employee and their current employer.

✓ Upon starting with the new employer, the employee may want to continue with their service purchase but change the terms of the PDA. **The employee must contact the ASRS** and have a new cost letter issued for the cost of purchasing the remaining service. The cost is recalculated at the current salary. Upon receiving the cost letter, the employee may set up a new PDA with the terms of their choice and have it implemented with the new employer.

✓ Upon termination of employment with an employer, an employee with a PDA may purchase the balance of the PDA contract in a lump sum. The employee must notify the ASRS within 10 days of the date of termination that they intend to purchase the balance of their contract and also to request a cost letter for the amount. The ASRS will issue a cost letter after the final contributions have been posted. Upon receipt of the cost letter, the member has 30 days to complete payment.

IMPORTANT: Members are prohibited from pre-paying any amount of service contracted under a PDA.

One-Stop Shopping for Government Entities

Welcome to a new era of public service in the Internal Revenue Service (IRS)! As part of the modernization of the IRS, the office of Federal, State and Local Governments (FSLG) in the Tax Exempt and Government Entities

(TE/GE) operating division was established to serve government entities throughout the United States. This is the first IRS organization specifically developed with government entities in mind.

To increase voluntary compliance, the mission of their office is to provide you with the necessary information and assistance to understand and comply with the Federal tax laws. Their operational strategy is to build relationships and partner with their customers and stakeholders to deliver educational outreach. They also maintain their tax administration enforcement responsibilities through examination programs.

Their primary technical expertise is employment tax law and information return reporting. However, they have full responsibility for assisting you in addressing any Federal tax issue(s). To support the customer service focus emphasis, they will assist you in addressing issues (i.e., collection, excise tax, pension plans and notices) with other divisions and functions within the IRS.

Whether you are a federal agency, state agency, local government, or quasi-governmental entity, the FSLG looks forward to hearing from you so that they can try to make your job easier. Please call your local FSLG contact listed below for assistance or to learn more about their office.

Mr. Kim Savage
Arizona Tax Specialist/Coordinator

Telephone: (928) 556-7321 Extension 5

Fax: (928) 556-7359

E-Mail: kim.b.savage@irs.gov

Mailing Address: PO Box 9, Flagstaff, AZ 86002

THE AUDIT PROCESS AT THE ASRS

As part of the Arizona State Retirement System's (ASRS) annual audit plan we currently audit approximately 18 municipalities, state agencies and school districts in Arizona in a fiscal year. The ASRS audit objectives are to ensure that the auditee is in compliance with:

- ✓ Rules governing eligible compensation and required contributions to the ASRS
- ✓ Rules governing accurate and timely enrollment of all eligible employees
- ✓ Rules governing service purchase payroll deduction agreements
- ✓ Rules governing health insurance payments for retired employees

The scope of our audit includes the review of personnel and payroll records and payroll reporting processes relating to the entities contract with the ASRS. We are currently examining records for the fiscal year ended June 30, 2001.

The tests included in a typical employer audit include;

- ✓ Review the contract between the ASRS and employer
- ✓ Review the employers payroll register and related ASRS contribution report
- ✓ Review employee service purchase agreements
- ✓ Examine all part time employees for determination of eligibility
- ✓ Review all non-contributing employees for application of the 20/20 rule
- ✓ Verify existence of all enrollment forms in the employer's personnel files

At the end of our audit, we issue a report to the employer that was audited and to the ASRS Board. If there is an assessment to be made, we provide the employer with an estimated amount and notify ASRS membership accounting. They would contact the employer to discuss what options are available.

Employer UPDATE

is published periodically for employers of the Arizona State Retirement System by the External Operations Division. Comments and questions may be directed to the Editor, or call (602) 240-2022, or toll-free outside metro Phoenix at 1 (800) 621-3778. ext. 2022.